

ECN 328: INTERNATIONAL BANKING AND FINANCE**SPRING 2019****INSTRUCTOR AND COURSE INFORMATION**

Instructor: **Dr. Andrea TERZI**

Office Hours: drop-in Monday and Thursday 15:45–17:00, or by appointment

Contact: 091.986.3632 (voice mail) – aterzi@fus.edu (subject field “ECN 328” gives you priority)

Schedule: Mondays & Thursdays 14:30-15:45; FUS, Lowerre Academic Center, 8

COURSE DESCRIPTION

This course is designed to provide students with an appreciation of the meaning and consequence of international monetary relations, notably with respect to cross-border payments and investments under different monetary, banking, financial, and political institutions. In the first part, we investigate currency exposure, the currency market and its actors, the determination of exchange rates, measures and indices of the external value of a currency. In the second part, we focus on the structure of balance-of-payments accounting, the size and significance of current account balances, and exchange rate policies. Finally, we study monetary unions with special reference to the current issues and future prospects of Economic and Monetary Union in Europe.

RATIONALE

This upper-level course in economics is the second part of an ideal two-semester sequence including ECN 325. It is a program requirement for the major in International Economics and International Banking and Finance. It also fulfills group requirements towards the major in International Economics with an emphasis in Political Economy, and Economics as a Combined major as well as a Minor. Students must have taken ECN 100 and ECN 101. Students are warmly encouraged to take ECN 225, ECN 256, and ECN 325 before they take this course.

COURSE GOALS

Critical thinking: Identify questions, use models when processing thought, judge conclusions; Relate a policy statement to the set of assumptions of the theoretical model of reference. *Problem-solving:* Use logical and analytical skills to apply a given technique to new requests. *Communication:* Convey ideas substantively and coherently in written, spoken, and graphical form; Utilize relevant data effectively in written and oral presentations; Demonstrate the ability to read, evaluate, and interpret general economic information. *Collaboration:* Provide and receive feedback, ideas, and instruction in a professional manner; Explain the impact of each team member (including oneself) on the collaborative project and the role each member plays. *Technology:* Make appropriate and effective use of information technology for research. *Business knowledge:* Recognize the relevance for business of dealing with the currency environment. *Lifelong Learning:* Use a model approach to understand and evaluate new economic events. *Social Responsibility:* Describe how alternative courses of action affect various individuals and social groups.

SPECIFIC LEARNING OUTCOMES

Upon completion of this course, students should be able to:

- Illustrate how cross-currency payments are settled
- Describe how to manage currency exposure
- Explain the link between spot and forward exchange rates
- Show how real effective exchange rates are constructed
- Compare the significance of current account imbalances and exchange rate policies
- Analyze the institutional issues with the Economic and Monetary Union in Europe

REQUIRED TEXTS AND MATERIALS

Course Reader, uploaded on Moodle.

Course Website (on Moodle platform) offers additional resources, information, and updates pertaining this course. Students are responsible for checking this platform regularly.

ASSESSMENT OVERVIEW

Assessment is based on the following requirements:

- Exams: One 50-minute midterm (30%) and one cumulative 80-minute final (35%)
- Commitment to learning and contribution to learning of others (20%)
- In-class quizzes (10%)
- Franklin Franks: Full payment of 3 Franklin Franks by the last day of classes: 5%.

ASSESSMENT DETAILS

Exams are a mixture of problems, short answers, multiple choice and open-ended questions.

Commitment to learning and contribution to learning of others includes a) participation and engagement, resilience and perseverance, self-discipline, responding thoughtfully to other students' comments; b) submission and sharing of two in-depth topic reports.

In-class quizzes can be either announced or pop-up. They will cover questions about the material being currently covered in class as well as included in the reading assignment for that day.

Franklin Franks can be earned in the Franklin economy or by providing services in the Franklin Frank Community Engagement Program events planned this semester.

GRADING POLICIES AND EXPECTATIONS

At the end of the semester, you will receive a score from 0 to 100. Your total points will be translated into a final letter grade (plus/minus when applicable) using the following scale for performance:

90-100=A (excellent)

80-89=B (good)

70-79=C (satisfactory)

60-69=D (minimal pass)

0-59=F (unsatisfactory).

HOW TO DO WELL IN THIS COURSE (POLICIES / REQUIREMENTS)

Class behavior: On-time arrival, respect, courtesy, attentiveness, not leaving while class is in session without permission to be obtained before class begins, not using devices for personal reasons.

Attendance and class work: Learning is an active process. Turning in work and attending classes does not ensure a passing grade. To succeed in this course you should be rather active both during class meetings and outside of class. You are required to read the assignments before the class meetings, as we will discuss the content of the readings in class. At random times, I may conduct a "pop quiz" to test the extent to which you have done the readings. Nonattendance lowers your score. Should you miss a class, you are responsible for any missed information. Extended absences may result in you being invited to withdraw from the class.

Scheduled reports and presentations: Once assigned, presentations cannot be postponed without documented evidence of a major disruption to your work.

Exam dates: All exam dates are binding. Please do not ask to take your exam at a different date than the one posted on this calendar. No make-up of exams can be given. A missed midterm exam will receive a grade of zero unless the student 1) makes every effort to notify the instructor prior to the exam to be missed by phone or email; and 2) provides formal documentation of a condition of illness or serious family emergency. When both conditions are met, the weight of the exam will be shifted to the final exam. There is no make-up of in-class quizzes.

ACTIVE LEARNING

This is an active learning class where students gain first exposure to new material outside of class, via reading and videos, and then class time is used to do the harder work of assimilating that knowledge through strategies such as problem-solving, discussion, applications, and debates. Before each class, you are expected to do the assigned readings available on the Course Website. In class, I will begin by asking questions on the assigned material, and I will invite you to discuss it in groups.

ACADEMIC INTEGRITY: STATEMENT ON CHEATING AND PLAGIARISM

A student whose actions are deemed by the University to be out of sympathy with the ideals, objectives or the spirit of good conduct as fostered by the University and Swiss community, may be placed on Disciplinary Probation or become subject to dismissal from the University. Cheating is a dishonest action out of sympathy with the ideals, objectives and spirit of the University. Furthermore, cheating reflects negatively on one's personal integrity and is unjust to those students who have studied. See the Academic Catalog for full statement (page 215)

RESOURCES AVAILABLE

Writing and Learning Center: For all writing and learning support issues (time management, study skills, preparing for exams, reading and presentation skills, and all steps of the writing process from brainstorming a paper to outlining, editing to proofreading) schedule an appointment with a tutor by going to the website wlc.setmore.com. Drop-in assistance 10am-5pm (Fridays only 10am-3pm). Tutors can give you individual one-one-one support in all of these areas. For further inquiries, contact Ann Gardiner, WLC Director (agardiner@fus.edu) or Olivia Della Croce, WLC Assistant Director (odellacroce@fus.edu).

Honors Society: This offers an added opportunity for students seeking to pursue their academic interests. The program is especially suitable for students contemplating graduate study after Franklin. Contact Professor Marcus Pyka (mpyka@fus.edu), LAC 12.

Accessibility Services: If you have a disability and you would like to discuss the possibility of receiving accommodations, please write to accessibility.services@fus.edu to make an appointment with the Accessibilities Coordinator.

BIBLIOGRAPHY (TABLE OF CONTENTS OF THE COURSE READER)

1. A-B Terzi, Crash course in accounting and Accounts templates
2. A European Central Bank, Cross-border and cross-currency payments (2010 extract)
2. B Ásgeirsson, Settlement of foreign exchange transactions (2003)
2. C Swiss National Bank, The Continuous Linked Settlement foreign exchange settlement system (CLS) (2009)
3. A Daniels-VanHoose, The market for foreign exchange (2005)
3. B Export Development Canada, Managing Foreign Exchange Risk (2010)
4. A Eun-Resnick, The market for foreign exchange (2004)
4. B Susmel. Interest rate parity theorem (notes, s.d.)
5. A Catão, Why Real Exchange Rates? (2007)
5. B Ellis, Measuring the Real Exchange Rate (2001)
5. C Alsterlind, Effective exchange rates – theory and practice (2006)
6. A van Marrewijk, Purchasing Power Parity (2006)
6. B Lafrance-Schembri, Purchasing-Power Parity: Definition, Measurement, and Interpretation (2002)
6. C Landry, The Big Mac: A Global-to-Local Look at Pricing (2008)
7. A Yang, The balance of payments (notes, s.d.)
7. B Bach, A guide to the U.S. International Transactions Accounts and the U.S. International Investment Position Accounts (2010)
8. Kharroubi, The trade balance and the real exchange rate (2011)
9. A Ghosh-Gulde-Wolf, Exchange Rate Regimes: Classification and Consequences, (2002)
9. B International Monetary Fund, Revised System for the Classification of Exchange Rate Arrangements, (2009)
10. De Grauwe, Design Failures in the Eurozone - can they be fixed? (2013)

COURSE SCHEDULE

Calendar of topics with reading assignments (Course reader chapters):

JAN 21	1. Accounting for economic activity: Double-entry bookkeeping	1A-B
JAN 24	Profitability, liquidity, solvency	-
JAN 28	2. Cross-currency payments Payment settlement via correspondent banking	2A 2B
JAN 31	RESCHEDULED ON MAY 6	
FEB 4	Forex settlement risk and the CLS bank payment vs payment system	2C
FEB 7	3. Dealing with different national currencies Foreign exchange exposure	3A 3B
FEB 11	Financial and natural hedging	-
FEB 14	4. The market for foreign exchange The spot market and the bid-ask spread	4A
FEB 18	Spot and forward exchange rates: Covered interest parity condition	4B
FEB 21	Practice session	
FEB 25	5. Tracking the international value of a currency Real bilateral exchange rates	5A 5B
FEB 28	Multilateral (weighted) exchange rate indices	5C
MAR 4	6. International purchasing power Deviations from absolute parity	6A
MAR 7	Convergence to relative parity	6B 6C
MAR 25	Review session and class discussion	
MAR 28	Midterm examination	
APR 1	7. Accounting for cross-border transactions The balance of payments	7A 7B
APR 4	The net international investment position	-
APR 8	8. The trade balance and the real exchange rate International differences: consumption-led growth and export-led growth	8
APR 11	Sensitivity of the trade balance to real exchange rates	-
APR 15	9. Exchange rate policies Exchange rate arrangements	9A 9B
APR 18	Policy options	-
APR 25	10. Monetary unions The euro area: Incomplete and needing to be fixed	10
APR 29	Review session, presentations, and class discussion	
MAY 2	Review session, presentations, and class discussion	
MAY 6	Review session, presentations, and class discussion	
MAY 9	Final exam – 13:30-15:30	